

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 CIAE-00 DODE-00 PM-05 H-02
INR-10 L-03 NSAE-00 NSC-05 PA-02 SP-02 SS-15
ICA-20 AID-05 CEA-01 COME-00 EB-08 FRB-01 IO-14
NEA-11 OPIC-06 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 DOE-15 SOE-02 /158 W
-----049826 091311Z /10

R 091006Z MAY 78
FM AMEMBASSY STOCKHOLM
TO SECSTATE WASHDC 3740
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY HELSINKI
AMEMBASSY LONDON
AMEMBASSY OSLO
AMEMBASSY PARIS
AMEMBASSY REYKJAVIK
AMEMBASSY ROME
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO

UNCLAS SECTION 1 OF 2 STOCKHOLM 1802

USEEC ALSO FOR EMBASSY

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, EIND, ELAB, ETRD, SW, OECD
SUBJECT: SLIGHTLY MORE OPTIMISM IN SWEDEN'S REVISED NATIONAL BUDGET

REF: (A) STOCKHOLM 0153, (B) STOCKHOLM A-12, (C) STOCKHOLM A-53,
(D) STOCKHOLM 1587

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1. ECONOMICS MINISTER GOSTA BOHMAN AND BUDGET MINISTER
INGEMAR MUNDEBO OUTLINED THE SWEDISH GOVERNMENT'S RE-
VISED NATIONAL BUDGET FOR FY 1978/79 AT A PRESS CON-
FERENCE ON APRIL 26. MINISTER BOHMAN'S PRESENTATION WAS
CHARACTERIZED BY JOURNALISTS AS "CAUTIOUSLY OPTIMIS-
TIC." WHILE STRESSING THAT THE COUNTRY STILL FACED
SERIOUS RESTRUCTURING PROBLEMS, THAT THERE WOULD BE NO

EQUILIBRIUM IN SWEDEN'S BALANCE OF PAYMENTS FOR SOME YEARS TO COME, THAT INDUSTRIAL INVESTMENTS WERE CONTINUING TO FALL, THAT UNEMPLOYMENT WOULD PROBABLY INCREASE DURING THE CURRENT YEAR, AND THAT NO INCREASE COULD BE EXPECTED IN INDUSTRIAL PRODUCTION BEFORE 1979, BOHMAN SAID THE MEASURES TAKEN BY THE GOVERNMENT SINCE LAST SUMMER OR PLANNED IN THIS FISCAL YEAR (DEVALUATION OF THE KRONA, LOWERING OF THE PAYROLL TAX, INDEXATION OF FEDERAL INCOME TAX SCALES, ETC.) HAD NOW PUT THE COUNTRY'S ECONOMY ON THE RIGHT PATH, AT LEAST. INFLATION, HE HOPED, COULD BE HELD DOWN TO 8 PERCENT FROM DECEMBER 1977 TO DECEMBER 1978, I.E. UNDER THE CRITICAL 7.25 PERCENT FEBRUARY-TO-DECEMBER FIGURE WHICH, IF EXCEEDED, WOULD LEAD TO A REOPENING OF COLLECTIVE WAGE BARGAINING IN THE PRIVATE SECTOR. REGARDING IMPROVEMENTS IN TRADE BALANCE SINCE NOVEMBER LAST YEAR, MINISTER BOHMAN SAID THAT THEY WERE DUE TO DRAWDOWN IN INVENTORIES RATHER THAN IMPROVED COMPETITIVENESS, THOUGH HE HOPED THE CURRENT YEAR AS A WHOLE WOULD SEE SOME SURPLUS IN TRADE CALANCE.

2. FOLLOWING IS FROM THE REVISED BUDGET'S BALANCE OF RESOURCES FOR CY 1978:

	1977	PERCENTAGE
BILLION KRONOR	CHANGE 1978/1977,	
CURRENT PRICES	1975 PRICES	
GDP	351.5	0.8

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IMPORTS	90.1	-3.5
GROSS INVESTMENT	71.4	-0.9
PRIVATE INVESTMENT	34.9	-9.0
INDUSTRIAL INVESTMENT	14.6	-12.0
LOCAL GOVT INVESTMENT	14.5	0.1
HOUSING	13.9	14.8
INVENTORY ACCUMULATION	-1.3	(-1.6) (1)
PRIVATE CONSUMPTION	189.3	-1.0
CENTRAL GOVT CONSUMPTION	31.7	-0.8
LOCAL GOVT CONSUMPTION	69.2	4.1
NET SERVICES	-4.2	-
EXPORTS	85.5	5.6

(1) AS PERCENTAGE OF 1977 GDP.

3. THE MAJOR CHANGES COMPARED WITH THE JANUARY BUDGET INVOLVE IMPROVEMENTS IN GDP (UP FROM A 0.2 PERCENT GROWTH FORECAST FOR 1978), IMPORTS (DOWN FROM -1.3) INDUSTRIAL INVESTMENTS (UP FROM -14.9), HOUSING INVESTMENTS (UP FROM 7.4), AND EXPORTS (UP FROM 5.0). THE REVISED BUDGET FIGURES ARE ALSO SOMEWHAT MORE OPTIMISTIC THAN THE FORECASTS PUBLISHED IN LATE APRIL BY THE FEDERATION OF SWEDISH INDUSTRIES.

4. THE REVISED BUDGET'S CURRENT ACCOUNT BALANCES FOR
1976-1978 (MILLIONS OF KRONOR, CURRENT PRICES) ARE AS

FOLLOWS:	1976	1977	1978
	FORECAST		
EXPORTS OF GOODS	80,195	85,527	96,910
IMPORTS OF GOODS	85,300	90,148	95,990
TRADE BALANCE	-5,105	-4,621	920
CORRECTION OF TRADE FIGS.	-106	-366	-375
NET SHIPPING	3,149	3,006	3,000
NET TOURISM	-3,169	-3,601	-4,075
OTHER SERVICES, NET	-2,888	-3,628	-4,000
NET TRANSFERS	-4,347	-6,510	-8,425
CORRECTION ITEM	800	800	800

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BALANCE ON CURRENT ACCOUNT -11,666 -14,920 -12,155
THE CURRENT ACCOUNT DEFICITS SHOWN IN THE JANUARY BUDGET
WERE 10,511, 16,095, AND 16,945 MILLION KRONOR, RESPEC-
TIVELY. THE IMPROVEMENT IN THE 1978 FORECAST IS CHIEFLY
DUE TO IMPROVEMENT IN THE TRADE BALANCE FIGURE (A FORE-
CAST DEFICIT OF 3,650 MILLION IN JANUARY).

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UNCLAS SECTION 2 OF 2 STOCKHOLM 1802

USEEC ALSO FOR EMBASSY

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5. DESCRIBING DEVELOPMENTS ON THE FEDERAL BUDGET SIDE, MINISTER MUNDEBO NOTED THAT THE GOVERNMENT'S INTENTION TO ABOLISH THE 2 PERCENT PAYROLL TAX AS OF JULY 1 THIS YEAR, COMBINED WITH A DECLINE IN PRIVATE CONSUMPTION AND THUS OF VAT REVENUES, WITH LESS INCOME TAX REVENUES, AND WITH INDUSTRIAL AND EMPLOYMENT SUPPORT MEASURES IN THE CURRENT YEAR TOTALING SOME 17 BILLION KRONOR, WILL LEAD UNCLASSIFIED

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TO AN ESTIMATED BUDGET DEFICIT IN FY 1978/79 OF ABOUT 42 BILLION KRONOR. MOREOVER, THE MEDIUM-RANGE BUDGET FORECAST FORESEES THAT THE BUDGET DEFICIT WILL REMAIN IN THE REGION OF 40 BILLION KRONOR EACH YEAR UNTIL FY 1982/83. MUNDEBO EXPRESSED CONCERN ABOUT THESE LARGE DEFICITS AND SAID THEY MUST BE TAKEN AS A WARNING THAT NOT LARGE-SCALE REFORMS COULD BE EXPECTED IN THE NEAR FUTURE AND THAT SCOPE FOR ANY IMPROVEMENTS MUST BE OBTAINED FROM CUTS ELSEWHERE. HE DID, HOWEVER, GIVE ASSURANCES THAT EXPENDITURE IN THE PENSIONER AND CHILD CARE SECTORS WOULD CONTINUE AS PLANNED. THE REVISED BUDGET ALSO VOICED CONCERN ABOUT EXPANSION IN LOCAL GOVERNMENT CONSUMPTION.

6. AS THE EMBASSY HAS INDICATED ON PREVIOUS OCCASIONS, SWEDEN'S FEDERAL BUDGET DOES NOT INCLUDE THE SOCIAL INSURANCE SECTION, AND THE ABOVE DEFICITS ARE TO BE SEEN IN THAT LIGHT. THE FINANCIAL SAVING OF THE COMBINED FEDERAL AND SOCIAL INSURANCE SECTORS SHOWS THE FOLLOWING DEFICITS, IN MILLIONS OF KRONOR AT CURRENT PRICES, ACCORDING TO THE REVISED BUDGET:

FY 1977/78	1978/79	1979/80	1980/81	1981/82	1982-83
-5,500	-16,400	-16,100	-18,100	-19,000	-21,700

7. THE SOCIAL DEMOCRATIC OPPOSITION HAS ALL ALONG VIOLENTLY CRITICIZED THE NON-SOCIALIST GOVERNMENT'S INTENTION OF ABOLISHING THE PAYROLL TAX, AND PARTY LEADER OLOF PALME WAS NOT SLOW TO REJECT THE EARLIER

IMPLEMENTATION OF THIS AIM, WHICH WAS INDICATED IN THE REVISED BUDGET. HE SAID THAT 1978 WILL SEE A WORSENING OF THE SITUATION OF PEOPLE WHO ARE ALREADY BADLY OFF, AND THAT IT IS THEY, RATHER THAN FIRMS, WHO SHOULD BE HELPED. ON THE BUDGET DEFICIT, HE SAID THIS WAS A CLEAR INDICATION THAT THE GOVERNMENT HAD COMPLETELY LOST CON-

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TROL OF DEVELOPMENTS. THE SOCIAL DEMOCRATIC PARTY PRESENTED AN OUTLINE OF ITS COUNTERMOTION TO THE REVISED BUDGET ON APRIL 27, CALLING FOR FURTHER SUBSIDIZATION OF BASIC FOODS, AN EXTRA CHILD ALLOWANCE OF 500 KRONOR A CHILD, AND THE ESTABLISHMENT OF AN INDUSTRIAL RESTRUCTURING FUND OF 4 BILLION KRONOR A YEAR INSTEAD OF REMOVAL OF THE PAYROLL TAX.

8. SPEAKING BEFORE PARTY SUPPORTERS AT A LABOR DAY RALLY IN HAGFORS ON MAY 1, OLOF PALME ACCUSED THE GOVERNMENT OF WIDENING SOCIAL GAPS, OF FAVORING ITS OWN, AND OF INCREASING THE BUDGET DEFICIT TENFOLD IN LESS THAN TWO YEARS. HARKING BACK TO THE "LADEN TABLE" THE SOCIAL DEMOCRATS SAID THEY HAD LEFT WHEN THE NON-SOCIALISTS CAME TO POWER IN 1976, HE CONTINUED: "NOT ONLY HAVE THEY EATEN EVERY SCRAP ON THAT TABLE, THEY'VE EMPTIED THE LARDER, GUZZLED IN THE STOREHOUSE, LET THE FIELDS LIE FALLOW, AND CHEWED THEIR WAY THROUGH THE DINING HALLS OF FOREIGN BANKS ON CREDIT CARDS ISSUED IN THE NAME OF THE SWEDISH TAXPAYER....NEVER BEFORE HAVE SO MANY PROMISED SO MUCH; NEVER BEFORE HAVE SO MANY FAILED TO KEEP THEIR WORD." SUCH IS THE TENOR OF SOCIAL DEMOCRATIC CRITICISM OF THE FALLDIN GOVERNMENT AT THE MOMENT.

9. THE EMBASSY'S LATEST ASSESSMENT OF SWEDEN'S ECONOMIC SITUATION WAS SET FORTH IN THE ECONOMIC TRENDS REPORT FORWARDED TO THE DEPARTMENT AS AN ENCLOSURE TO REF C. NO FURTHER COMMENT IS CONSIDERED NECESSARY AT THIS JUNCTURE.
KENNEDY-MINOTT

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, REPORTS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STOCKH01802
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780196-0314
Format: TEL
From: STOCKHOLM
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780577/aaaacnlw.tel
Line Count: 266
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 0e01b1a1-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 78 STOCKHOLM 153, 78 STOCKHOLM A-12, 78 STOCKHOLM A-53, 78 STOCKHOLM 1587
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 21 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2743738
Secure: OPEN
Status: NATIVE
Subject: SLIGHTLY MORE OPTIMISM IN SWEDEN'S REVISED NATIONAL BUDGET
TAGS: EFIN, EIND, ELAB, ETRD, SW, OECD
To: STATE USEEC MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/0e01b1a1-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014